#### INTERAGENCY PANEL

Speaker Identification:

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MB: Matthew Borman

KH: Kenneth Handelman

AG: Ann Ganzer

BM: Beth McCormick

KN: Before we start this session I wanted to say that the panel will be taking questions this morning. They ask that you write your questions down on index cards and pass them forward. Those index cards will be available throughout the session and they will be collected, and then all the questions will be addressed at the end.

Alright, thank you very much, and now let me introduce Deputy Assistant Secretary Matthew Borman.

Thank you Karen and good morning to everyone. It's once again my MB: pleasure to host the Interagency Policy Panel here at Update, and we're very fortunate to have very experienced and knowledgeable officials from our sister agencies. We'll have Ann Ganzer from the Department of State speak first to set the stage for you for the multilateral aspect in particular of Export Controls, both Dual-Use and Munitions and then Ken Handelman, from State Department Bureau of Political Military Affairs will talk about the licensing that they do for items on the International Traffic in Arms Regulations, and then Beth McCormick who is back again as the DTSA Director and will talk about defense's role in both of those systems. And then I'll follow up with some conclusion remarks and then we want to leave plenty of time for question and answers, because recollection is every year we do this panel we have more questions asked than we have time to answer them. So we want to make sure we allow as much time as we can to answer everybody's questions.

With that, Ann do you want to come up and lead us off.

AG: Thank you. Good morning, it's always great to be at Update, see so many familiar faces. I always think this is one of the best events of the year, I love coming and seeing everyone and on behalf of my colleagues at State I'd like to thank Under Secretary Hirschhorn

and the Commerce Department for putting on this wonderful event, and for inviting me to participate in this discussion.

I welcome the opportunity to talk about some of the ways we at the State Department, but also particularly my bureau, International Security and Non-Proliferation, support effective Export Controls in the United States and around the world. Also how we work within the President's Export Control Reform Initiative.

A lot has happened since I was here at last year's Update Conference. The President announced on April 28 some sanctions in response to Russia's actions in the Ukraine, there were further sanctions announced yesterday but I wasn't prepared to address those. You know how we are at the State Department, everybody's got to approve your remarks, so they are not up to the minute, but we work with the Commerce Department and with Ken Handelman and his folks over at the Director of Defense Trade Controls on this and we have been denying export licenses for defense articles or services to Russia that contribute to Russia's military capabilities.

Now clearly the situation in Russia, Ukraine, Crimea is fluid, it's constantly changing and so we've clearly announced that we will adjust our policies as warranted by actions in the region. As I said the President announced more sanctions yesterday, and if those affect you we will get guidance out as soon as we can.

On the Export Control Reform front, we continue supporting interagency effort to completely review all the remaining categories in the ITAR and at the same we in ISN are working to operationalize the 600-Series of exports. We are well into the review, for those of you who don't know, in ISN we review commercial or dual-use exports from the Commerce Department, and now the 600-Series exports for foreign policy considerations. And based on our international multilateral regime commitments, so things that are controlled for national security, missile technology and the like, and so we have the foreign policy input to that.

Since last year's conference we have gone live with the 600-Series, and we at State have reviewed over 3,000 in fact my staff tells me it's 3,050 cases for 600-Series items. We work hard to provide consistent and timely foreign policy analysis and advice for these exports, and we work closely with other offices in State, including the regional bureaus, including Political Military Affairs including the Human Rights experts as well as our interagency colleagues that are here on the panel.

We've also worked hard to identify cases that we do not need to review and we've advised the Commerce Department of which cases we don't have to see for foreign policy considerations. Hopefully that will get those cases out the door to you a lot faster. In short, if you never had a problem exporting your item to your end user under the ITAR, you should not have a problem exporting that same item under the 600-Series to that same end user. New end users as you know, all bets are off, we have to review them but if it's something that we've seen before and that you have a licensing history on, on the ITAR side, it should be pretty smooth on the dual-use side unless something has changed in that country as always.

One of the basic tenets of Export Control Reform is the President's pledge to honor our commitments to the multilateral export control regimes. If you're not familiar with those, those are the Australia group which is Chemical Biological, the Missile Technology Control Regime, pretty self explanatory, the Nuclear Suppliers Group, and the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.

These multilateral standards underpin the effectiveness of our Export Control measures and they help to level the playing field for international suppliers of strategic goods and technologies. With all this in mind we work with the interagency to strengthen U.S. controls and to bolster export controls around the world. In addition the U.S. works in partnership with multilateral regime members to assist other countries in developing effective national strategic trade control systems. That helps to make sure that the bad actors cannot shop around and obtain from other countries technology that is denied by the United States.

Our work with regime partners is a dynamic process that intends to account for technology, innovation, and proliferation trends in order to refine regime guidelines and control lists and to make continual progress in fighting proliferation.

Let me start with the Nuclear Suppliers Group - in 2014, the Nuclear Suppliers Group Plenary, Consultative Group, and Information Exchange and Licensing Enforcement Experts meetings were held in Buenos Aires, June 23 to 27. At that meeting the Nuclear Suppliers Group noted its strong concerns about the nuclear programs of North Korea and Iran. The group discussed and is looking forward to proposals from the United States for a fundamental review of the Nuclear Suppliers Group guidelines beginning with Part-2, the Dual-Use guidelines and with a proposal

to consider supply of uncontrolled items needed for the operation and safety of nuclear facilities in certain non-Nuclear Supplier Group countries. While concerns were raised by certain participating governments about these proposals, the group agreed to consider continued discussions. Consensus was reached for publication on the Nuclear Suppliers Group website of a German Guide to Brokering and Transits, but it is a good practice, a national paper with a number of co-sponsors that includes the United States rather than a Nuclear Suppliers Group best practices guide.

It may seem like splitting hairs to you, but that is important to say that it is a German document with co-sponsors, as opposed to a formal Nuclear Suppliers Group document.

The group strongly endorsed the importance of a continued and vigorous outreach program, not only with non-members, but also with organizations like the IAEA and with other export control regimes, building on the success of recent informal meetings and joint workshops with Wassenaar Arrangement experts.

The Missile Technology Control Regime - in October 2013 it held its Plenary in Rome. There MTCR partners highlighted the importance of the regime working to address regional proliferation, adopted static changes to the control lists, and noted the importance of placing greater focus on intangible technology transfers, brokering in transit, and trans-shipment. In particular partners had extensive discussions of the missile programs in both Iran and North Korea, and procurement technology transfers related to the proliferation of weapons of mass destruction delivery systems. Partners also emphasized the importance of catch-all controls and VISA vetting to impede proliferation and exchanged information on best practices in Export Control implementation and enforcement. In addition the Plenary marked the 25<sup>th</sup> Anniversary of the first MTCR Plenary held in Rome in 1988. More recently at the May 2014 Inter-Sessional Reinforced Points of Contact or IRPC meetings, the partners discussed developments since the Rome Plenary and began planning for the 2014 Plenary which will be in Oslo.

On the Chemical and Biological Weapons Front, the Australia Group continues its efforts to impede the flow or supplies of technology to chemical and biological weapons programs around the world. In June, the Australia Group held its annual Plenary meeting in Paris. In the wake of the use of chemical weapons in Syria, Australia Group members adopted a series of measures to strengthen the regime's focus on chemical and biological weapons terrorism, the

implementation of catch-all controls, and outreach to industry and academia. Australia Group members also agreed to launch an initiative to encourage more non-member countries to adhere to its guidelines and common control lists.

The Australia Group welcomed the progress made to rid Syria of its chemical arsenal, but also expressed concerns about lingering ambiguities about the completeness of the Assad Regime's declaration to the organization for the Prohibition of chemical weapons and continued reports of the use of chemical agents in the Syria conflict.

On a more positive note, they also welcomed Mexico as a new Australia Group member.

In the specific area of the Life Sciences and Biotechnology, the Australia Group serves to reinforce the Biologic Weapons Convention. The Biological Weapons Convention is a short treaty but there's a lot packed into it. It doesn't just outlaw the possession and development of biological weapons by states, it requires us not to transfer biological weapons or their components to others, or to in any way assist, encourage, or induce anyone to acquire biological weapons. Parties to the treaty are also required to take steps to prohibit and prevent anyone under their jurisdiction from developing or acquiring such weapons.

BWC states parties have strongly reaffirmed most recently in December the importance of effective national export controls as a means to fulfill these obligations. The Biological Weapons Convention is continuing to work to develop common understandings and best practices for its implementation including Export Controls by gathering information on national implementation and by providing targeted assistance to strengthen implementation around the world. The Australia Group works to ensure its members fulfill their legally binding obligations under the Biological Weapons Convention, and the two are necessary and mutually reinforcing elements of the overall regime to stem the proliferation of biological weapons.

The Wassenaar Arrangement continues to keep pace with advances and technology in market trends. Participating states have worked to make the existing control list more readily understood and user friendly for licensing authorities and exporters and to insure the detection and denial of undesirable exports. The arrangement continues to work on a comprehensive and systematic review of the

Wassenaar Arrangement Control List to insure their continued relevance.

In 2013 new controls were agreed in a number of areas including surveillance in law enforcement intelligence gathering tools and internet protocol network surveillance systems or equipment which under certain convention's conditions may be detrimental to international and regional security and stability. Participating states also further clarified existing controls in respect to inertial measurement systems and relaxed some controls for instrumentation tape recorders and digital computers.

I know the interagency was working hard to get the Wassenaar Reg published before this conference. Kevin, did we make it?

KW: It's at the Federal Register, it should be in the next day or two.

AG: At the Federal Register, should be published in the next day or two for those of you who didn't hear Kevin's response.

Sorry, I checked the Federal Register last night and didn't see it, so I assumed it hadn't made it. But some of you are probably more expert at checking that website than I am, it's pretty hard to navigate, but it should be coming soon. I note however that it will not include those, what we've been calling shorthand - the cyber controls, the surveillance in law enforcement intelligence gathering tools that I mentioned, because we are still working on those. I think we promised to have those published by September, is that correct? Kevin is nodding - he's in the front row here so I can ask him. Thanks.

Significant efforts have also been taken to promote the Wassenaar Arrangement and to encourage voluntary adherence to the Wassenaar Standards by non-Wassenaar members. The Wassenaar Arrangement continues to undertake outreach and support of its aims and objectives in particular through post-Plenary briefings, interaction with industry, and bilateral dialogues with non-Wassenaar members.

Participating states in all of these consensus based multilateral control regimes have voluntarily committed to observe coordinated export control guidelines and control lists. The guidelines and control lists are observed by non-member adherent countries and some of the regime lists also feature in U.N. Security Council resolutions on Iran and North Korea.

They are also implicitly endorsed by U.N. Security Council resolution 15-40 which requires all U.N. member states to have non-

proliferation export controls to prevent the proliferation of weapons of mass destruction or their means of delivery, and to prevent their acquisition by terrorist groups or other non-state actors. As a founding member and strong supporter of the regimes, the United States welcomes expanding acceptance of the Multilateral Export Control Standards.

All four regimes continue efforts to expand their outreach and dialogue with non-participating states. These efforts further the regime's objectives through technical interaction with unilateral adherence as well as pursuing greater international acceptance of the guidelines and control lists among the broader international community. At the same time there has been strong interest by some countries to become part of the regimes, and we continue to work with them as well.

The Arms Trade Treaty - 118 countries, including the United States, have signed the Arms Trade Treaty and 41 have ratified it, putting it close to the 50 ratifications that are necessary for its entry into force. Most people speculate that it might reach the 50 ratifications marked by the end of this year, possibly in early next year, so we are watching. When Secretary Kerry signed the Treaty last September he explained what the Treaty is about and why it's in the United State's interest.

It is worth repeating his words, he said this Treaty is about keeping weapons out of the hands of terrorist and rogue actors. It is about reducing the risk of international transfers of Conventional Arms that will be used to carry out the world's worst crimes. It is about keeping Americans safe and keeping America strong. It is about promoting international peace and global security and about advancing important humanitarian goals.

Secretary also clearly spelled out what this Treaty is not. It's not about taking away domestic freedoms. As the President has said, he strongly believes that the Second Amendment guarantees an individual Rights to Bear Arms. The Treaty is fully consistent with these rights of U.S. citizens including those conferred by the Second Amendment.

The ATT recognizes the freedom of individuals and states to obtain, possess, and use arms for legitimate purposes. The Treaty reaffirms the sovereign right of each country to decide for itself, consistent with its own Constitution and legal requirements how to deal with conventional arms exclusively within its borders.

Let me add one other thing that the Treaty is not — it is not about limiting a countries sovereign right to conduct responsible arms transfers. Indeed it's a Trade Regulation Treaty focused exclusively on the International Trade in Conventional Arms. It aims to create a global framework for country's responsible national regulation of the International Transfer of Conventional Arms, and the Treaty recognizes this trade as a legitimate activity that supports country's national security and commercial interests.

The Arms Trade Treaty will compel countries to undertake rigorous national assessments when making decisions to export weapons so that in the future rather than conventional arms being secreted out of warehouses and into the unknown, a government will need to have a control system in place to adequately review the request to authorize the export of such arms to another country. In this way the Arms Trade Treaty helps establish a common international standard for regulating the International Trade in Conventional Arms.

The Arms Trade Treaty will not change what the United States does on a day to day basis to implement effective export controls and import controls on conventional arms, rather it will induce other countries to come up to our standards, or we hope they will come up to our standards. Our standards actually greatly exceed the requirements of the Arms Trade Treaty.

The goals of the Arms Trade Treaty are important and are aligned with our foreign policy and national security interests. We believe it is important for the United States to give public endorsement to the ATT and its effectiveness so that as many other states as possible will be encouraged to sign on, and more importantly implement its requirements as well.

United Nations Security Council resolution 15-40. I mentioned that earlier. The United Nations adopted a number of resolutions that extend the reach of multilateral controls. Renewal of the mandate of the 15-40 committee to 2021 marked a critical diplomatic achievement. In extending this mandate, the U.N. Security Council requested that the committee identify effective practices for implementing 15-40. In addition to the International Best Practices, it has already identified, the 15-40 committee has begun assembling an additional set of effective practices including on Export Controls identified by the United States and other countries.

The Security Council also encouraged the committee to draw on relevant expertise including from the private sector so the 15-40 committee has enhanced its work with industry, especially through a series of industry focused meetings hosted by Germany, which recognizes the crucial role of industry in developing effective measures to control weapons of mass destruction related materials and technologies.

Finally the EXBS Program, Export Control and Related Border Security. This is the flagship U.S. initiative to assist other countries in developing effective national strategic trade control systems. EXBS is active in more than 60 countries worldwide and conducts more than 250 outreach and capacity building activities every year to support partner countries in developing modern legal and regulatory frameworks, effective licensing systems, greater government to industry outreach programs – nobody has one like this but we're working on it, stronger enforcement capabilities, and improved interagency and international coordination and cooperation.

These efforts help partner government's fulfill their international obligations and prevent the diversion of conventional arms and weapons of mass destruction to inappropriate end users. Partner government officials, including Parliamentarians, Executive Branch Officials, the Judiciary and the Frontline Export Licensing and Enforcement personnel take part in these capacity building efforts. EXBS is a valuable tool in pursuing non-proliferation objectives, this type of engagement and cooperation provides us with obvious security benefits while at the same time preserving our economic competitiveness by insuring that U.S. exporters are not held to a stricter level of controls than their foreign competitors.

As countries seek to develop high-tech industrial sectors and expand their ports and transportation networks, EXBS engagement helps give us all and our allies greater confidence that controlled items will not be diverted or reexported to unauthorized end users. EXBS engagement combines outreach to existing and emerging suppliers with capacity building for major trans-shipment hubs in order to help address global supply chain security.

I'd like to close by reiterating that the regimes and treaties I've discussed this morning continue to be dynamic. Every year there are changes to the control lists and guidelines based on ever-changing and advancing technology and proliferation trends we debate, we negotiate, we agree upon. Every year changes in the control lists lead to updates of export control regulations, not only in the

United States but around the world. Multilateral export controls must be continually improved so that national security concerns are balanced with economic considerations.

Finally the treaties on the United Nations Security Council resolutions we discussed demonstrate growing acceptance in the international community of the role of export controls in addressing our shared concerns. The U.S. Export Control Reform effort has helped us to better focus our attention on transactions that merit higher security while continuing to carry out our international commitments and obligations.

In the end U.S. Export Controls are and will continue to be recognized as the "Gold Standard", and our actions will be dictated by national security and foreign policy objectives.

I thank you, and I am sure you are interested to hear our other members - thank you.

KH: Good morning everyone. I am Ken Handelman, I am Deputy Assistant Secretary of State for Defense Trade Controls. I run the Directorate of Defense Trade Controls which I will refer to as DDTC. I am in the government so I have to use acronyms, and I see no familiar faces. This is a completely new forum to me. I have been in this job since October, but when it comes to the Commerce Annual Update Conference, I am the new guy and I will liberally rely on that status during the question and answer period. Although I must say I feel like I have met probably all of you and more at least electronically or telephonically. DDTC maintains an open door policy, an open email policy, an open phone policy and you all use it very-very well and that's a good thing. That's going to be a theme of what I have to say.

This back and forth outreach in-reach comment complaint feedback loop is critically important, particularly during a time like this when there's a huge amount of change, wrought not merely by the export control reform initiative with which I think you are all very familiar, but also by world events. It has been a busy year around the world. People in the government who do Foreign Affairs and Defense related work don't need to look for work over the past year.

Ann commented that there has been a lot of change in our world since the last Commerce Conference and I wanted to reflect on three areas of change. First inside my own organization, DDTC, second within what we sort of loosely refer to as the U.S. Interagency

Defense Trade community, and third I'll just touch briefly on where we are on the Export Control Reform initiative.

With respect to the Directorate for Defense Trade Controls, there has been a clean sweep of change in leadership since the last Export Control Conference that Commerce put on. With respect to the Deputy Assistant Secretary level there has been a severe degradation in mental acuity in sartorial splendor. I took Beth McCormick's job, Beth left an organization in really great shape. I struggle every day to just ask myself how would Beth do it when a challenge comes up. And so I am learning, I'm working on it, bear with me.

The good news for you and for me is that at the office director level there is really a tremendous team, several of which Beth helped put in place. I think many of you know Tony Dearth, our Director for Licensing, Ed Peartree who is our Director for Policy. Both Ed and Tony will be here making presentations at part of this week's conference. Sue Gainor is the Director for Compliance, she's off on some very well-deserved annual leave, and Lisa Aguirre is our Chief of Staff and Director for Management, someone on whom I rely virtually every second of the day.

Another big area of change that we're starting to feel, although it really hasn't hit just yet, is the change in our workflow brought on by Export Control Reform. The last year for which we have data that is, for lack of a better term - free of the impact of Export Control Reform, is 2012 when DDTC processed roughly 88,000 U.S. Munitions List licenses. Sometime in 2015 after the revised Category-XI, Military Electronics, takes effect and begins to make its impact felt.

For those of you keeping score, it will take effect or become active on December 30, 2014.

We expect our licensing volume to drop some place below 60,000, that's a good thing for us, it's a good thing for you. With due respect to our Commerce colleagues, the licenses that are going to move over to their system are what we in the good old arrogant State Department refer to as the easy stuff. You know what I mean, for too long, the State Department controlled stuff that probably had a questionable impact on U.S. national security, at least at the level that the State Department reviews licenses. So it really is no disrespect to the Department of Commerce, they have a much more flexible regulatory system and it's appropriate that this volume of goods, of licenses, be regulated at Commerce. Now the

precipitous you might say drop in licensing volume for DDTC, does not exactly mean that we are going to cut our licensing staff in half, quite the contrary. Again using our State Department colloquialism, if the easy stuff is going to move over to Commerce, the hard stuff is going to stay with us. We are motivated, we are obligated, to run our system on the proposition that foreign policy drives defense exports and not the other way around. So we anticipate a lot of, not necessarily harder work, but perhaps having time and space to focus on more complex work, more let's say professionally intriguing types of exports going to more globally intriguing places.

What I think we're going to be doing though is taking a look at our licensing staff, and probably making a few re-allocations to reflect the new licensing volume. I wanted to touch on this point just because it has an impact on you and it helps me sort of make a broader point about how we relate to the export community.

I met with the licensing team which numbers about 60 a couple of weeks ago to talk about the impact of Export Control Reform and what our leadership team was thinking about how the next 12 months were going to look. They are not dumb, quite the contrary, they are very sharp, they were kind of wondering what the decreased licensing volume might do to the licensing team. What I told them very directly was you're not going to lose 20 people, that would be really dumb. This licensing process is important and it's important that we apply rigor to it and that we do it in a predictable transparent and timely fashion. That's our implicit promise to you. It could be that the licensing staff goes down by 10, we just don't know, the data is going to have to come in and then we'll make some decisions about how we reshape that team.

Here's the point I want to make to you, some of those people or we may just do this by attrition, that's my problem not yours, will probably go to Ed Peartree's policy shop, because I think we can do a better job at our core licensing mission if we're able to bring a greater strategic kind of policy context to this activity. But a number of those billets are also going to go to our compliance team, and compliance is something that I intend to spend a lot more of my time on over the next 12 months.

Now don't get me wrong, I am not moving people to compliance and I'm not going to devote my time to compliance because I think there's a massive problem, in fact reflecting again on my "new guy" status, since October as I've learned this business and met a lot of you, I have been actually very impressed with the culture of

compliance that sort of permeates our exporting community. I have also been very impressed with the philosophy towards compliance that the State Department takes. We don't have folks with guns and badges, and even if we did we would never have enough of them to really police the U.S. exporting community. The goal and the ethos is to establish a relationship with the exporting community in which if something goes wrong you all voluntarily come in and tell us about it. The process then is one of looking at what happened and deciding through a dialogue whether whatever the issue was, was it the product of a systemic issue, just a onetime screw up. Obviously if there was malfeasance or misfeasance we have the authority and we have to retain the option of getting a U.S. attorney involved, but we don't necessarily consider that a victory. Our compliance people are promoted or rewarded necessarily by the number of consent agreements they book or the amount of fines they work with the Justice Department to levy each year. That's an approach to compliance that I think works really well for the U.S. government but also for you. If there aren't familiar faces for me here today, maybe there will be a lot more next year after I've come and paid you all visits to talk about how you all are thinking about compliance and how we want to really help you.

Seriously, when it comes to compliance, I'm from the government, I'm here to help. It would be rank negligence to give me a gun or a badge, it just would not work well for our mission or for you.

Second, I wanted to reflect quickly on the what we sort of think of as the U.S. Government's Defense Trade community. It comprises all of us and our organizations who you see up on the dais, in addition to my colleague at the State Department, Deputy Assistant Secretary Greg Kausner, and Beth's colleague over at Defense, Admiral Joe Rixey, the Director of the Defense Security Cooperation Agency. Joe and Greg, as you probably know, run the foreign military sales system, and shock and wonder - we actually all talk to each other, we all get together with some frequency. The team that you see here, we are regulators, so it's an interesting kind of dynamic, we're not on your side but we are in your corner. We may be regulators but we're American regulators, so what I wanted to reflect on was something that this Defense Trade community, at least at the leadership level, has been talking about over the past seven months or so, and that's how we can do a little better as a government on the issue of advocacy.

We can't pick winners, now there is a process run by our colleagues at the Commerce Department whereby if a foreign government or foreign purchaser has down selected to a single U.S. company, we can very deliberately be public and back the sole U.S. competitor. You wouldn't want us to pick winners, the U.S. has never had an industrial policy, per se, and if we tried to do it we would probably screw it up. But there is a way we believe where we can advocate a little bit better for the American brand. I wanted to touch on it just really to invite your feedback. We have spent a huge amount of effort and time attending various trade shows, we have virtually overwhelmed our hosts at the Dubai and Singapore and most recently the Farnborough Air Show over in the U.K. Huge U.S. official delegations, if you, your company or your consortium, whatever it is are planning on exhibiting, let us know. We can't walk up to your potential customers and say buy from so and so, but we want to go and see you at your pavilion or your counter at these trade shows and air shows, because as I said we can't be on your side as regulators but we can be in your corner. I will say I was really thrilled at Farnborough, Kevin and Beth and I were all there, along with about 200 other Americans. It was like deploying a brigade, there were something like 260 American exhibitors, and that's not all Boeing and Lockheed, in fact if you walked around the American corral there, it was really mostly mid-size and small companies and really that's just terrific. The role as regulators that we can play there is being transparent with your customers, letting them know what our process is in the United States, let them know that we're trying to make it more efficient. Again, we can't make them any promises, we're not going to make you any promises, but the great news is that the American brand and American products still sell, it's what foreign customers want and so we're starting to try think of ways in our Interagency Defense Trade community where we can be better partners in advocating for the American brand.

Finally, let me just touch on Export Control Reform. We are hopeful, those of us who are deeply religious and those of who are not that we will actually get the final set of rules out for comment by the end of Calendar 2014. These are the final set of rules reflecting the updates to the 21 categories of the U.S. Munitions List. We still have additional work to do on the International Traffic in Arms Regulations, there are definitional issues that we think and we know you agree need to be clarified. We're making a lot of progress in moving towards a system where you can read a regulation and actually know what it means. Really the goal, I'm a career civil servant, the goal of this effort is to take power away from me, and that's just great. It really is, you need to be able to understand what is written in the Federal Register and what it means to you.

I will say that the whole process of Export Control Reform is agony for our staffs, at State, Commerce, and Defense, and we know it's agony for you, too. My message to you is the same as it is to our teams, suck it up will ya. It's been a generation, it's taken a generation literally, to get the political head of steam, the momentum going to actually reform this ossified colossus known as the ITAR and the USML, we know it's painful. You have to reinventory, you have to re-code, you have to figure out what Commerce regulations mean and we know that there are a lot more of them than there are at the State Department. The deal there is they have more regulations which means they have more options to help you - suck it up, pull off the band-aid. That's what we're trying to do in the government. I know that pulling off a band-aid typically is not measured in two year increments, but this is the Federal Government and it's been 20 years.

If it's taking a two year period to pull Export Control Reform across the goal-line, bear with us, it's worth it for us, it's definitely worth it for you and for the economy.

I am going to end where I sort of kind of began, it's the feedback loop thing, whether it's commenting on proposed regulations or just calling up with bright ideas or complaints, it's really valuable. I have to tell you, even if the administrative procedures act didn't require that we publish proposed rules, we'd probably find a way to do it and our lawyers would probably kill us, but the input from industry and from exporters on what are admittedly very complex rules, whether they are the old ones or the new ones they are going to be complex, is hugely valuable. So keep the cards and letters coming or whatever they say, and I look forward to your questions.

BM: Well good morning, I'm going to have to talk to the organizers of this conference that I think next year I probably need to change jobs again and work for the Department of Commerce because as far as I can tell that's the only agency I haven't worked for, and that way I'd get to go before Mr. Handelman because he's actually a lot funnier than I am and a little worried about that now.

I have already started with a laugh and I didn't even tell a joke yet so that's good.

I am very pleased to be here this morning and thanks to the Bureau of Industry and Security Under Secretary Hirschhorn, I see my colleague and good friend Kevin Wolf sitting here in the front row, and of course to be up on the dais this morning with individuals that I've worked with for a long time now, so we get together and

the fact that we are all here together I think as Ken suggested, we actually get along and work together very-very well.

As Ken suggested, this is sort of interesting for me because last year I was on this panel and I was representing the Department of State, and as I recall last year, the Deputy Director of the Defense Technology Security Administration, Tim Hoffman, was running a little late and since I was actually a DOD person in disguise because while I was with the State Department I was actually detailed from the Department of Defense. I think I reached the point at about this part of the panel when I thought I was going to have to give Mr. Hoffman's briefing which I actually thought I would be capable of doing.

In addition to having a new job this year, and it's actually an old new job because I have been the Director of the Defense Technology Security Administration before, I actually a couple of months ago I have a new hip and I was looking at the schedule for today's event and I notice after this session there is going to be a breakout session on Commodity Jurisdiction. I have had some question as to whether or not my new hip, which I believe is made up of titanium and ceramic, I think that I'm a Dual-Use item. But considering Mike Laychak will be doing that panel, I believe along with some of my colleagues here I thought perhaps I could drop by that session and maybe I could get a quick jurisdictional ruling.

Actually I thought it was Dual-Use when I left the United States to go to Farnborough because I did not set off the metal detector at Dulles, but I did set it off at Heathrow on the way back so I still am very confused. Matt if you could help me a little later I'd appreciate it.

We've touched a little bit this morning in terms of where we are in the Export Control Reform initiative, and I just have to say this has been a really interesting experience for me to be involved in this for the last couple of years, because a lot of times when we start with an initiative with the government and sometimes those don't go in a very efficient way, we kind of wonder what it is that we're sort of about and what we're doing. And having been again involved in this whole area of export control, technology security protection, and foreign disclosure for over a decade now of my three decades of government service, I think that sometimes we don't think the government is going to accomplish very much. And what's been striking to me about this is this is really hard, but I'm very proud of the progress that we collectively have made in this endeavor, and so striking the proper balance between

facilitating defense trade and support of our partners around the world while at the same time implementing the appropriate controls that keep defense articles out of the hands of those who would do us harm continues to be challenging, and I would argue as we move forward particularly with the fact that the Defense Department is not going to be actually buying as much from our industry as we have in the past, that pressure to do more defense exports is going to only increase.

The Export Control Reform Initiative began and of course it continues to be a national security-focused effort, and I really want to foot-stomp that because that's really what it's about. While it's clear that we will also facilitate trade I think at the root of it, and we must all remember that it is a national security review. That makes me feel good because therefore it is totally consistent with the mission of my agency, the Defense Technology Security Administration, which is aimed at protecting the U.S. Military technological edge in the most critical and sensitive areas while facilitating trade with U.S. allies and partners.

Now if we expect our partners, as we do, to bear more of the global security burden, we have to be able to share capabilities that strengthen interoperability with our allies and partners without compromising the underlying critical technologies that could jeopardize our war-fighters edge. And just as important our partners must be willing and able to protect the technology we share with them.

In fact I want to just go off script a little bit for a second and just say that one of the things I have been pleased to find out as I've returned to the Defense Technology Security Administration as the Director is that over the last couple of years my agency has really forged unique partnerships with countries around the world where we have very important bilateral discussions talking about how we both protect defense technology, and this has been interesting particularly with several countries where they are becoming bigger exporters of technology. And as Ann talked about this morning, our role in those multilateral regimes is very important, and I have to say having additional bilateral discussions with certain other countries is another aspect of how we work together.

As you've indicated here in, and we didn't really go into great details about it is we've made tremendous progress in what we've done, and in fact let's just take stock for a couple of minutes and

I know Matt will do this as well, but let me just take stock from my perspective on where we are.

In terms of the actual review of the U.S. Munitions List categories, we have 15 of the 21 categories have been completed and that's a huge accomplishment that I have to say I think a few of us in this room we probably thought we would never get that far. And so while we have some work to do, we've made great progress. We've had the first removals from the U.S. Munitions List last year, and as Ken said we have some additional categories including Category-XI from Military Electronics and Space Craft Category-XV that will come into effect later this year.

Now I'm sure some in the room might have been concerned of the role that the Defense Department would play in this and that perhaps we would kind of get together in dark smoky rooms and we would make decisions about what technology we're going to protect, but I have got to tell you it's been an amazingly collaborative effort between all of the agencies, and so it really as from my vantage point set a new standard for interagency and industry cooperation.

I think the process that we've used where we basically come together, come up with what those categories look like then put them out for public comment and get the kind of great comments that we've got from many of the people in the room, has been what has made this very good. And of course when we get those comments we have to adjudicate them and as appropriate we actually go back a little bit to the drawing board, and then move forward and put out a new rule and we have done that with all the rules. I just want to thank everybody in the room because I know there are people in this room who specifically comment to those regulations. While we think we put them out and we do a pretty good job deciding what should be out there, it's the feedback from industry and the public that has been most helpful in having us get this right. We are now, I can tell you we're working to finish. We have a couple three categories left where we still have some interagency work to do, and so those are in Category-XII, Category-XIV, and Category-XVIII and our goal is to have those accomplished by the end of the year.

Another area which we have emphasized in the Export Control Reform Initiative is the idea of the creation of a single information technology system. And I am pleased to say that my agency has the responsibility to basically serve as the program manager for the implementation of this effort. We, the interagency, chose together the notion of moving to a system that we call USXPORTS, it's a system that we've had working in the Defense Department for a

number of years. We think it's a fairly effective system where we are able to do staffing, we're able to see each other's positions, we're able to look at precedent cases, and we're actually able also to take advantage of intelligence information to make what we hope to be wise decisions.

We're moving to have this be the single platform for the licensing and coordination between the various government agencies. I was pleased that when I was at the Department of State last year, I worked collaboratively with our Defense colleagues to actually bring the State Department online, so State Department has been using the USXPORTS system since last July, and right now we are working, in fact in the midst of end to end testing with our colleagues at the Department of Commerce to bring them online. We also hope that by year's end we'll have the Treasury's Office of Foreign Asset Control, OFAC, as part of it and then we'll look to have other U.S. Government agencies with export responsibility to transition as soon as possible.

Our goal after we do the licensing piece of this will be then to move onto other types of things that we have to review within the interagency including things such as commodity jurisdictions to make that an even more seamless process.

The third goal that we had was also to review and keep up review on the Export Administration Regulations in the Commerce List, and I guess I have to ask a couple of questions. The first one is have we gotten it right? Are we facilitating exports to partners and allies, and protecting the view that the United States is a reliable partner and supplier? Are we strengthening our industrial base? Are we indeed protecting the cutting edge crown-jewel technologies instead of trying to protect everything? Are we safeguarding items that are truly critical to our military edge and national security?

Our final goal is to really take a look at how we keep this going, because this has been a comprehensive effort and it's taken a while, but when we also think about it, it's been a long time since we've done this kind of a comprehensive review of the U.S. Export Control Regulations.

We are going to have to think a little bit about how are we going to keep this fresh and up to date, and so I think those of us in the interagency understand that we need to continue to evaluate and update the controls as technology advances and the advent of new technologies emerging. And letting our list become stagnant after

all of this hard work would not be a smart thing to do, in fact I would argue it would devastating to national security. So we're going to have to come up with a flexible process that can respond to emerging technologies and evaluate aging technologies and then apply the appropriate level of control.

Finally I think we all have an important responsibility in the interagency to carry out continued industry outreach. As Ken alluded to just a couple of weeks ago, several of us including Assistant Secretary Wolf and Ken and I were at the Farnborough Air Show, and I think by my calculation it was the first time that a Director of the Defense Technology Security Administration had attended an air show, and as Ken suggested having folks from Defense, particularly both Admiral Rixey and myself, so that we had basically all parts of the Defense Trade issue was good. We met with international partners and we met with industry and had positive feedback about that. And Kevin and Ken and I have the opportunity to do a media event related to Export Control Reform and got some really good questions about how we were proceeding.

These kind of events that we're doing today and the kind of sessions we'll have during this couple of days here at this conference are really important, because it's very important that we continue to talk about this and to get good input from industry, and that's a very top priority for us.

Thanks for your kind attention, and I look forward to answering some of your questions.

Thank you.

MB: Thanks Ann, Ken, and Beth for those remarks. I particularly took note of Ken's admonition that it's tough getting the transition to just suck it up, so I'll remember that when I talk to my kids about the various issues they bring to you.

What I want to do now is just spend a very couple short minutes going over a couple of pieces of my slide-deck and then go to questions, because as you might see we've already got easily a dozen a dozen and a half questions and I want to make sure we get to as many of those as we can.

They are all for me, as Beth said, that's right.

The last slide in my slide-deck is actually Russia sanctions but since we just had another set of announcements yesterday I want to start with that.

As I'm sure most of you have heard the President made remarks on this yesterday and then both we, Commerce, and Treasury put out press releases announcing the next round of sanctions. I'm not going to talk about the geo-political rationale, the President did that far better than I could do it, but I do want to talk a little bit about the Commerce actions. We really announced two pieces yesterday.

First we're adding another Russian Defense Technology company, United Ship Building Corporation, to our Entity List. That brings to a total of nine Russian Defense enterprises that have been placed on our Entity List as a result of the Russian activity in Crimea and eastern Ukraine.

The thing that I want to highlight which I am sure many of you know, but for those of you who may not, is that of course Treasury has also sanctioned those nine entities, remember the Treasury sanctions in shorthand really go to financial dealings with those entities. Our placement on the Entity List goes to the actual Trade Relations if you will with those entities. So remember when these entities or any other ones are placed on our Entity List, what that means is any item that is subject to act, not just licensed items, any item, now requires an export license to go to those entities for direct export, for reexport from a foreign party, or it's going to be transferred in country from one party of Russia to one of those listed entities. Those are all now licensable events, license requirement for those events. And in addition what's very important to remember is that if there is a foreign made item that has EAR content of greater than 25%, that reexport of that foreign made item to that listed entity also needs a license. So that's the important distinction or addition to what the Entity List listing does in addition to what Treasury does, because Treasury controls go to U.S. persons, our controls also go to activities of foreign persons when they involve items subject to the EAR. So that's something I want to make sure everybody understands and we will continue to make sure to get that message out.

The other piece of the sanctions that we announced yesterday is an additional set of license requirements and licensing policy for items in the Energy sector. We will have a regulation likely published early next week that will provide the details. What I can tell you is that the licensing policy for items that currently require a license to Russia, because they are on the multilateral regime list, this will be now taken into account. If they are going to be used in deep water, arctic offshore or shale oil production, we'll have a policy of denial and the rationale of that is set out

in the statements and is essentially that we are looking to impact Russia's future ability to produce crude oil. We are not looking to impact their current ability to produce crude oil or their ability to sell petroleum refined products to foreign customers or domestic customers. We are looking to impact their future ability.

We will also have an additional set of items that currently do not require a license for Russia that will become subject to a license requirement, and again the details will be in the regulation which will be published I think early next week.

Those are the upshot of what we at Commerce are doing. Of course Treasury also sanctioned the Defense enterprise, the United Ship Building, and additional three banks. I'm sure that those of you who have to deal with the Treasury part of the sanctions architecture are familiar with those details.

Can we go ahead and go to my first slide.

The other piece that I wanted to do besides the Russia sanctions is go over quickly just some statistics so that everybody has a clear picture of how the export licensing process sets in the overall USXPORTS System.

In calendar year 2013, as you can see, there are \$1.6-trillion worth of exports from the United States and going to Ken's point in particular, this is why compliance and our government's work with you in industry on compliance is critical, because there is no way that we could possibly have enough resources to police all \$1.6-trillion worth of exports. And even if we did, we wouldn't want to because that would be a tremendous drag on those. And as you notice from the following stats, relatively small, very small percentage frankly, over those overall dollar value of exports actually went through the licensing process. Now we recognize that you still need to do the analysis to know whether your item needs a license or not, but you can see that only a small percentage of that \$1.6-trillion actually required U.S. Government approval, review and approval, before it went out.

You can also see by dollar value, the DDTC licenses are far and away the most significant chunk, and there's a very large chunk, \$80-billion that went out under a license exception or an exemption. And in our system the single biggest license exception that's used by dollar value is ENC, which is the encryption license exception.

Could we go to the next slide. Thank you.

Here it is really just showing it in a pie chart, so the vast majority, almost 90% of the U.S. exports are items that are not on the Commerce Control List, most of those 90% went under with no license required, either license exception or no license required. And only a half of percent by dollar value are actually licensed.

Let's go to the next slide. Thank you.

That's on the actual exports, not just a little bit on the licensing itself. In the last year we at Commerce processed just under 25,000 license applications, we had an average processing time of 26 days, I know that for folks that have an urgent business need, 26 days is probably about 25 days too long, but as I'm sure you can appreciate in a government interagency decision making process, 26 days is actually quite rapid to come to essentially a three agency agreement on a particular transaction.

The two other things I want to highlight here is in our system if agencies, us, State Department, Defense Department disagree on an individual license application, whether it should be approved or denied, or what condition should be placed on it, we have an escalation process. The first level is the operating committee, of those 24,840 licenses we processed only 312 went to the operating committee. Now of course if one of the 312 that goes to the operating committee, it's different than, it's more 26 days, but if you look at those percentages 312 out of 24,000 is a fraction of the overall licenses. And then of those only 27 actually went to the next level, the Assistant Secretary level, which Kevin Wolf chairs. We have remarkable unanimity on the vast majority of export license applications that come into the system, and I think that's in part a reflection of the good interagency working relationship, understanding what the policies are that apply to these, and generally very good license applications filed by exporters.

Two other stats and then I want to go to questions. Commodity classifications of course are another very important part of this process, if your item gets commodity classification you may not need a license to send it most places in the world. Last year we did about 5,500 commodity classifications at Commerce with an average processing time of 33 days.

Then on the Commodity Jurisdictions, which of course the State Department actually runs that process with input from us and Defense, we at Commerce reviewed about 1,200 Commodity Jurisdiction determination requests and our average processing time for our response to State was 19 days. We expect that that number will

start to decrease as we finalize all of the USML revisions, because there should be a lot less question in industry's mind as to whether their item is on the USML or not.

The rest of my slides I think you have in your packet, I want to stop at this point and make sure that we have time for questions. So I am going to come back over here and we'll start taking the questions.

Thank you.

#### Question & Answer

MB: So the questions that we have received, thank you, fall into a number of baskets. There are several I think it's best for Ken to take the first cut at. I'm going to give Ken one more. If you want to maybe take two then Ann take a couple, and then I bet there are some that between the four of us we can all chime in on.

KH: Well I'll consider this new guy initiation, DAS Handelman - please, call me Ken. I can't tell, the structures or the activities, I couldn't tell - in Commerce and State are very underlined different. Frankly Commerce is more user friendly, responsive, better and more proactive when it comes to average education and training, will that change under your leadership?

First let me assure everyone that I have stopped beating my wife. Second, I will take the point in one respect and I'll push back in another respect. I think our website and our electronic interface is weak, the IT in DDTC needs a lot of recapitalization with the exception of the USXPORTS System which is graciously provided by the Department of Defense. Things are really old, if you want to know where your registration fees and your export licensing fees are going, a lot of it is going to go to IT recapitalization in my agency. I have wanted to do it strategically, we haven't spent any of that money yet on IT recapitalization, because I'm in the process of hiring a Chief Information Officer. The track record of Federal IT Procurement isn't great, I want to get it right and I want to do it in a strategic manner. I take the point that at least the electronic interface may not be great. In terms of average education I've got to tell you, if our licensing team and others isn't spending a huge amount of time at this conference and other sponsored conferences, they are spending a huge amount of time at SIA conferences, so I have to tell you I'm not sure where we're not providing expert support to all sorts of folks who are convening all of you. But I would welcome specific suggestions if there is a way we can improve that.

You want to just do two, and then we'll go around?

MB: Yeah.

KH: Good. And then there are a couple of questions on the fire arms categories one, two, and three, and I am sure I speak for all of us when I say that is to say the timing of release of those categories, it's above our pay grade.

MB: Even Ken's pay grade.

AG: I've got one on that as well and I couldn't agree with Ken more, it's not in our hands right now. I've got two different questions asking about the Wassenaar controls on intrusion software and when they will be adopted and reflected in our domestic regulations.

We've been working on this since they were adopted and I think the regulatory language is sort of the easy part, it's when you get to how the rest of the regs apply. We are sorting through how many licenses will this mean, can we use exceptions, that's sort of what's hanging us up is getting through all of the other parts of the EAR. And so we are working through that, I think we've committed to get these published in September and so that is our goal, you should look for these in September. We've been working very closely at lower levels hammering out the exact words, and I think somebody went and got us a list of what potential licenses there would be if they were looking at, are there categories that can go under exception and the like, and so that's what we're working on. It's more difficult than simply writing regulatory text and so we should have it out in September.

MB: And Ann, I got another one in particular that makes this one a challenge is the Wassenaar adds some controls in Category-4 but you could have items that are currently covered by the Category-5 Part-2 controls because they have encryption in them that meet the Category-4 definition. So that's what we're really trying to work through as an interagency, what's the most appropriate way to reconcile those two different universes of products.

BM: I've got one question and actually this is for DDTC and DTSA, but since Ken got so many questions he passed this down to me to answer. It says what can you do to streamline the licensing process. For example there is no logical reason why repetitive similar licenses that have already received a technical review must go back to the end of the long queue, there must be a better way. Please work with industry groups in developing a better way, there is one if you will work with industry.

That's what I love about coming to this panel, you get these kind of like you feel like you're on Oprah or Dr. Phil. Actually I felt this year it's more like Dr. Oz, I'm kind of getting detoxed up here.

Let me just say and this is going to come across as a defensive answer and whoever wrote this question if you could come up and see me at the break I'd like to get better clarity on it, because my team at DTSA, what we do is utilize a process we call Tiger Team, and we get together every week and what we do is we do a triage between my technical team, my licensing team, and my policy team, and so when we get licenses in where we've reviewed them before and we have very quick precedent cases we turn them back around. In fact we average, I see people shaking their head and maybe that's who asked the question so you can come see me up front, we average about 18 days in terms of reviewing Munitions licenses. And so I'm sure that just like Matt showed some statistics, if you're in that other group you feel kind of put upon, but I can tell you we turn an awful lot around pretty quickly so we try not to even further staff within the Department of Defense if we feel that we can do that.

I can tell you having USXPORTS up between State and Defense has been very helpful in that regard because licenses are coming to us very quickly and we're turning them back very quickly. But if industry has any particular suggestions we'd be open to that, I would also just encourage industry in the room that one of the things that we like to do, and I encourage you to come over to my agency, if you see those kinds of issues and identify them to us, and additionally with new kind of business lines, particularly exporting certain technology to perhaps new countries or areas, come talk with us because if you talk to us upfront and we have a head's up about that before you submit the licenses I think that will help to refine the process, but any suggestions from industry would be greatly appreciated.

MB: Beth, another question that I think is partly for you it relates to USXPORTS. So maybe talk a little bit about DODs roll at helping Commerce get out to USXPORTS.

BM: As I mentioned, we in the Defense Department, we basically serve as the program manager for the system and that's because we have had this system in place, in fact I've had the privilege of being the Director of DTSA before and seeing this system work for us before because we think it's a great system. It does have that ability to have a lot of precedent cases in our database, it does run on our

classified system so therefore we are able to put in some information including potentially derogatory information about end users, and have that available to us. As I indicated we've had State Department up on this system, so basically the interagency agreed that because that was kind of a proven system that we should go ahead and use it to meet the Export Control Reform goal of a single information technology system. We brought State Department up online last year, I was there when we were working through the requirements that the State Department had, and so right now we're finishing up and we're right in the midst right now of the end to end testing right now with the Department of Commerce. And so we are working collaboratively where we have licensing officers over in the Commerce Department that are getting familiar with the system, they are helping to identify some things. I also have to say on the Commerce side, I want to give credit to Commerce in this regard because Commerce also did work with us with an awful lot of upfront work to ensure that the system was going to be able to have information that the licensing officers in the Export Administration would be interested in seeing, and that which would be required for the enforcement community. So we worked in the case of Commerce really trying to meet the requirements of both the licensing officers but also the enforcement officers. I am hopeful, the testing is ongoing right now, I am not aware of any show stoppers and so I think we'll be moving on here hopefully within the next month, and that's where I hope we are.

MB: To add a little bit to that, as I said we at Commerce now are in the end to end testing phase of USXPORTS, as Beth also mentioned the challenge in adopting USX to our system is there are pieces that needed to be added that are not in the Defense system, for example the whole piece on commodity classifications, since that's something we at Commerce do, but that DTSA does not do. But as I said we are in the end to end testing and once we identify whatever needs to be done, we'll go through another round of that so we are hoping we should be up on this relatively soon.

Another series of questions that I would invite anybody to jump into relate to kind of what's next in Export Control Reform, particularly once the regulations are done, what's next in the regulatory front, and then what's next in terms of the ultimate goals that were identified at the beginning of the process that is the single control list, the single licensing agency, and so on, single IT system that we've already talked about. So let me ask my colleagues if you have anything that you want to add on that, I probably have a little bit more as well - but Ken, do you want to?

KH: Once we get this initial big effort done, we're going to take a deep breath and learn some lessons. We're learning lessons already, and figure out how to basically do this on sort of a rolling basis. You may all be turning green right now, it's not like the USML is going to be re-revised every week, but we all know that it cannot be another 20 years before this list and the ITAR are updated. We're just not sure how we're going to give effect to that just yet because frankly everybody is being consumed on getting this initial effort, the main effort pulled across the goal line.

AG: I would concur, I don't think the Munitions List change that often, but I can tell you in the multilateral regimes there are updates to the Dual-Use Control List literally every year and the Wassenaar Arrangement leads with the most changes every year. So the Dual-Use List is a much more living document than the Munitions List, a tank is still a tank, but the nuts and bolts that go into may change with time and may be common to tractors or whatever. And so you do see a lot of changes on the Dual-Use List, it is more dynamic. We continue to work with multilateral partners and they all make recommendations for changes as well, and so we will continue to engage in that area.

I guess I said it during my remarks, I think this notion of trying BM: to keep our regulations fresh and up to date with evolving technology, that is something we really have to put a lot of emphasis on. I think the idea that we still have those goals of obviously moving eventually to a single list, but you can't really get there until you do the work that we've been doing in terms of the USML and to be honest with you, making the USML much more definitive and clear in terms of the parameters as opposed to sort of these wild sort of large catch-all kind of phrases which we have in terms of military intelligence. So it's important and it's been hard to make those, but to make basically the USML much more like the CCL in being fairly definitive and clearer. That's really a first goal, I think it's very good that we keep a goal of eventually having a single agency. However I think we all are realistic in government that we recognize that would obviously require legislation and I think the placement of that agency would obviously be something that would have to be discussed about. But I think again the foundational work that we're doing in terms of the revisions to the USML and some of these other processes, including shared information technology systems and also the very effective Enforcement Coordination Center that's in place. Those are all the kind of things that one needs to lay the foundation for those ultimate goals.

- MB: Another question that I would invite my colleagues to answer if they have in part. Export Control have significantly changed the jurisdiction and classification of our product portfolio, however other countries have not gone through a similar exercise and so it has delayed in some way the project of classification. Any plan to engage allies in a similar initiative?
- I kind of feel like that one's mine. We have been briefing our AG: allies in the Wassenaar Arrangement and the other regimes, but mainly the Wassenaaar Arrangement since that's the catch for most of our controls on the Dual-Use side. Where we have been going in Export Control Reform and some of these countries do have one licensing agency others have multiple systems, but the bottom line is many of the things we are moving off the Munitions List and to the Commerce Control List, some of those were controlled as Dual-Use items by many of these countries for a long time so this is more like we're catching up with them. There are some Munitions items that we have moved to the Commerce List that are clearly still Munitions items, that's where we have moved things to the 600-Series. They are not subject to ITAR control so they do not have the exact same requirements as the ITAR, but we still think that they meet our multilateral commitments to treat them as Munitions items. And our Commerce Department controls, quite frankly, are as good or better than most of our allies Dual-Use controls. So I do not see us encouraging other countries to change their systems to match ours, we are trying hard to get ours to be on a level playing field with theirs, I think would be more accurate.
- MB: And what I would add to that is keep in mind that the 600-Series items are Munitions items, they are just Munitions items on the Commerce Control List, they did not become transformed into Dual-Use items by moving them off the USML into the 600-Series. So they are all essentially Wassenaar Munitions List items, it's just domestically we are now treating some of them as CCL items and some of them continue to be USML items.

I don't think there should be a significant problem in dealing with foreign governments because they are all essentially Wassenaar Munitions List items.

As Ann mentioned, we have spent a lot of time talking to our allies both governments and industry to make sure they understand what the new system is and will continue to do that. The other thing you should keep in mind is in the EU there is a somewhat analog process that's been underway for sometime where national governments can

certify their own defense companies and then have more liberal intra-EU defense trade, and we will continue to talk to them about that and see whether there is any leveraging that can be done with that process and our process. But if you have specific issues, we'd really like to hear about them because the bottom line is, these are still Munitions items they are just on the Commerce Control List and I don't think that should impact how foreign governments look at them, from an Export Control viewpoint.

We've got time probably for just one or two more questions, let me see if I can get a couple more general ones.

Here's an interesting one which I guess is more for us - would you consider adding photographs when available to the denied parties list, restricted parties, etc, it would help us greatly.

I suppose it would, I have to say this is not a concept at least I had thought of before, and it strikes me as probably a lot of challenges in doing that, but that's an interesting concept. The more general point is again dealing with any of these listed parties, any questions you really should feel free to come in and talk to us about it and we'd be happy to give you as much guidance as we can because we try to have as much information, names, AKA's, addresses, but if there's questions feel free to come in and talk to us and we'll try to be as responsive as we can.

AG: Yeah, we get calls on this time, this Chinese name looks an awful lot like that one, is this the same person. And we go to whoever it was that opposed the sanction on that person in the first place and get more details and try to figure out if it's the same person, often times it's not. So it's very good that you check with us.

MB: And then I think we have time for one more which Ken is going to do, it's fairly a general one.

KH: Yeah, we can wrap up with a strategy and policy question. How does global advocacy or sorry, I need bifocals I refuse to get them.

How does general advocacy on behalf of the "American Brand" advance foreign policy objectives?

I'll answer in two ways - Beth and her comments pointed out how the U.S. Defense budget is declining. So if you all are going to be in a position to continue to innovate and maintain the U.S. Military's technological edge you got to come up with the R&D money for that someplace and that's through exporting. Our military is as strong as it is first because of the people and a close second is because of the technology.

The other point, that's sort of the inside U.S. answer I'd have, the outside answer is that what you guys make and what you guys export really matters. I mean soy beans matter, but they matter in a different way. Soy beans are not going to influence foreign policy around the world the way what you export will, and so when the U.S. Government asks you all to ask permission to export things, the reason is because we feel that when defense goods and services and Dual-Use goods and services are exported they are a foundation on which to build a relationship and to build stability around the world. And so when we advocate for the American brand or for a specific American company when Commerce has determined that we're in a position to do that sole advocacy, it's all for the good whether it's foreign policy or how we support our military edge internally.

AG: Ken got on a key point at the end there about how it creates a relationship, and so if we are selling defense goods to another country that gives us a foot in the door, because there's not just the item that's being sold, there's the training, there's spare parts and maintenance, it helps us develop a relationship with that country with that country's military, particularly if we do it on a foreign military sale side, sometimes there are requirements for things like Human Rights training. How these countries have to uphold law of war and other things, the Defense Trade relationship is our foot in the door to hit all those other national priorities, so we definitely, aside from all the important economic aims we get, the advantage it gives us in creating a relationship with that country cannot be understated.

MB: Good, I see the red light is blinking. It doesn't show us how much time we are over.

BM: They didn't put the timer on until Mr. Handelman talks.

MB: Yes that's true, we did notice that, but thank you all for your questions. I'm sorry for those of you whose questions we didn't get to, but I'll be around for the day if you need to follow up.